



U.S. Department of State FY 2001 Country Commercial Guide: Malawi

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I. Executive Summary

1. This Country Commercial Guide (CCG) presents a comprehensive look at Malawi's commercial environment, using economic, political, and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

2. Geographically small (48,000 square miles) and landlocked in central Africa, Malawi is one of the poorest nations on earth. With over 9 million inhabitants and a population growth rate estimated at approximately 2%, Malawi is one of the most densely populated countries on the African continent. Annual per capita GDP is about USD 220.

3. Agriculture forms the mainstay of Malawi's economy, accounting for nearly half of its GNP. Tobacco, tea, and sugar together generate over 70% of export earnings, with tobacco providing the lion's share (over 60%). The agricultural sector employs nearly half of those in formal employment, and directly or indirectly supports an estimated 85% of the population. Malawi has a narrow economic base with little industry and mining, and no known economically viable deposits of gemstones, precious metals, or oil. Improved rail service to the Mozambican deepwater port of Nacala subsequent to the December 1999 privatization of Malawi railways is expected to significantly lower the share of transport costs in Malawi's import bill.

4. Malawi has a relatively free investment environment. Poor infrastructure (roads, telecommunications, electricity, and water) and bureaucratic hurdles deter investors. A high degree of Government ownership/control of the financial sector stifles competition. The Government, however, continues to move forward with its multi-sectoral privatization program. As of July 2000, the Privatization Commission (1994) had disposed of slightly over one-third of the 90 plus state-owned enterprises targeted for sale. Recent Government initiatives targeting

improvements in the road infrastructure, together with the December 1999 privatization of Malawi railways and increased private-sector participation in the telecommunication sector, have begun to render Malawi's investment climate more attractive. The U.S. Embassy has received no complaints concerning expatriate employment permits since the government issued a revised "Policy Statement and New Guidelines for The Issuance and Renewal of [Expatriate] Employment Permits" (one document) in November 1998. Malawi has a fairly independent, albeit overburdened, judiciary that derives its procedures from English Common Law.

5. South Africa is Malawi's primary supplier of imported goods. This longstanding commercial relationship, comparatively higher product and transport costs, and a lack of historical business ties between the United States and Malawi disadvantage U.S. suppliers. There are a handful of U.S. companies doing business in Malawi, including the three principal processors and exporters of tobacco. U.S. products in significant demand include computers, used clothing, telecommunications equipment, and used vehicles.

6. Malawi is an active member of The Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). It belongs to the International Center for the Settlement of Investment Disputes (ICSID). Malawi has had an OPIC investment guarantee agreement since 1967. Malawi is also covered under the U.S. Export-Import Bank's (Ex-Im Bank) new Africa Short-term Export Credit Insurance Program, but remains off-cover for most other Ex-Im Bank programs.

7. Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>; <http://www.state.gov/>; and <http://www.mac.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S., exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-trade (1-800-872-8723) or by fax at (202) 482 4473.

II. Economic Trends and Outlook

Major Trends, Outlook and Principal Growth Sectors

8. The real growth rate for Gross Domestic Product (GDP) increased from 3.3% in 1998 to 4.2% in 1999, fueled primarily by 18.2% and 9.9% growth rate in the construction and agricultural sectors, respectively. Within the agricultural sector, production of small-scale farms increased by 13%, while that of large-scale farms by 1.4%. The transport/communication, and mining/quarrying sectors grew by 4.2% and 3.4%, respectively. The distribution, manufacturing and utilities sectors registered negative growth rates of 0.7%, 0.6% and 0.4%, respectively.

Exports (f.o.b.) grew by 18.3% over 1998, and imports (c.i.f.) increased by 55.4%. The Current Account deficit increased by 92.3%. The Malawi Government has set a real GDP growth target of 5.1% for 2000. It anticipates growth in the following sectors for CY 2000: construction, 12.4%; transport and communication, 7.7%; distribution, 6.1%; agriculture, 4.6%; and manufacturing, 0.9%.

9. On average annual (AVA) basis, money supply (M2) grew by 42.1%, and inflation rose from 29.7% in 1998 to 44.8 in 1999. The Reserve Bank of Malawi held the discount rate at 47% throughout CY 1999, partly due to inflationary pressures stemming from the August 1998 devaluation of the Kwacha. As of July 2000, the Discount Rate remained at 47%; commercial base lending rates were at 48%. The Government has set a 30.4% average annual inflation target for December 2000. The Current Account deficit is projected to deteriorate by 21.7%.

Government Role in the Economy

10. The Government exercises a facilitative rather than a regulatory role in economic activities. It has produced written guidelines intended to increase use of transparent and effective policies to foster competition. (See paragraph 76.) The Government continues to move forward with its multi-sector privatization program, and endorses private sector participation in infrastructure (roads, power, telecommunications, etc.) (See paragraphs 57, 77, and 87.) The fiscal deficit for the financial year 1999/00 amounted to 9.32% and 1.72% of GDP excluding and including grants, respectively. Budget estimates place the FY 2000/01 fiscal deficit at 11.58% and 1.2% of GDP excluding and including grants, respectively. Education, Health, and Agriculture are the three largest items in the Malawi Government FY 2000/01 Recurrent Account Budget.

Balance of Payments Situation

11. The balance of merchandise trade (on a f.o.b. basis) showed a deficit of Mk 6.3 billion (approx. USD 136.9 million) in 1999 compared to a deficit of Mk 246.9 million (approx. USD 5.6 million) in 1998 (see exchange rate differential in Appendix B). The total value of exports (f.o.b.) increased to Mk 19.8 billion (approx. USD 446.2 million) in 1999 from Mk 16.7 billion (approx. USD 377.2 million) in 1998. The total value of imports (c.i.f.) rose from Mk 19.8 billion (approx. USD 446.1 million) in 1998 to Mk 30.8 billion (approx. USD 663.6 million) in 1999. The Current Account deficit worsened to Mk 14.2 billion (approx. USD 307.4 million) in 1999 from Mk 7.4 billion (approx. USD 166.9 million) in 1998. The Current Account balance/GDP ratio worsened from 13.5% in 1998 to 17.8% in 1999. The overall balance of payments deficit (after debt relief) improved from Mk 5.8 billion (approx. USD 131.6 million) in 1998 to a deficit of Mk 1.2 billion (approx. USD 26.3 million) in 1999. In 2000, total exports (f.o.b.) and imports (c.i.f.) are expected to be Mk 23.4 billion (approx. USD 504.1 million) and Mk 36.9 billion (approx. USD 796.3 million) respectively.

Infrastructure Situation

12. The Malawi Government is taking positive steps to improve Malawi's infrastructure, which significantly deteriorated in the recent past. It is improving the regulatory framework and introducing private sector participation in state-owned electricity, water, and telecommunications companies. (See paragraphs 10 and 77.) Malawi had one Internet gateway provider and a few email service suppliers until May 2000, when a second gateway was established under USAID's Leland Initiative -- a U.S. Government project extending low cost, full Internet connectivity to several African countries. The second gateway effectively broke up the heretofore de facto monopoly on the provision of Internet Services held by Malawinet Inc. As of July 2000, 4 Internet service providers were operational, with 5 more planning to initiate service within the year.

13. Malawi's landlocked position results in high transport costs that can reach beyond 30% of the country's total import bill, constituting a serious impediment to trade. The rail links to the Mozambican port of Nacala and a road through Mozambique to the Zimbabwean capital Harare provided the cheapest and fastest routes to the outside world. Most transporters preferred the land route to the South African port of Durban, as they found it more reliable. The privatization of Malawi Railways in December 1999 resulted in improved service on the Malawi section of the Nacala rail link. Completion of a concession agreements by the Government of Mozambique with the same private-sector rail consortium operating in Malawi should result in seamless rail service between Malawi and the Nacala port before the end of 2000.

14. The Central East African Railways Company Limited -- a consortium of SDCN/CFM comprising Mozambican rail and ports, Rail Development Corporation of the USA, and Edlow Resources Limited -- took over the operations of the former Malawi Railways Limited (MRL) in December 1999. Plans are underway for the consortium to invest in wagons, upgrade the sea port at Nacala, and develop the entire 802 km Nacala Corridor (from port to Nayuchi in Machinga.) This development is expected to improve transport facilities along the Nacala Corridor and draw Malawi's traffic away from the land routes, thereby reducing Malawi's share of transport costs in its total import bill by as much as half.

15. There are no direct air services to Asia and the Pacific or the Americas. British Airways offers weekly flights between London and Lilongwe, via Harare and Lusaka. There are limited numbers of daily international flights from Lilongwe and Blantyre's International Airports to other countries in the region, notably South Africa, Zimbabwe, Zambia, Tanzania, Kenya and Uganda. Respective national carriers of some of these countries operate complementary services to Malawi.

III. Political Environment

Brief Synopsis of Political System

16. On June 15, 1999, Malawi held its second democratic presidential and parliamentary elections

since independence in 1964. (The first were in May 1994.) President Baliki Muluzi of the United Democratic Front (UDF) Party was re-elected to serve a second five-year term, defeating Gwanda Chikuamba, the joint presidential candidate of Malawi's two leading opposition parties, the Malawi Congress Party (MCP) and the Alliance for Democracy (AFORD). The UDF won 93 seats in the National Assembly, while AFORD won 29 and MCP won 66. Independent candidates won four seats, but later joined the UDF. As of July 2000, the UDF, MCP, and AFORD had 100, 61 and 29 seats, respectively. (UDF won three by-elections subsequent the June 1999 elections.) Women currently hold seventeen seats, of which 13 belong to the UDF, 3 to MCP and 1 belongs to AFORD. The political system combines aspects of both parliamentary and presidential government frameworks. There is no clear-cut ideological difference among the three political parties. Parliamentary politics, however, have been volatile with political parties changing alliances, members of parliament (MPs) elected on party lines declaring themselves independent, and, more recently, an open power struggle within the MCP leadership that threatens to split the party.

17. Malawi's Constitution guarantees freedom of speech, religion, and assembly. Malawi has a tripartite system of government with Executive, Legislative, and Judicial branches. The President is the Head of State and of Government. The Office of the President and Cabinet (OPC) is the working office of the Executive. Malawi has a fairly independent but overburdened judiciary, which derives its procedures from English Common Law. Although not part of the formal judicial system, traditional authorities often mediate in disputes/legal matters at the village level. Credible allegations of political interference in court cases occasionally arise.

Major Political Issues Affecting Business Climate

18. A series of economic reform measures introduced by Matthews Chikaonda, Malawi's Finance Minister since February 2000, have infused the business community with hope that the Government is serious in its efforts to improve the business climate. In May 2000 Chikaonda introduced a "ten-point plan" for budget reform, and in June the Finance Minister presented a FY 2000/2001 budget designed to significantly cut government spending and lower inflation and interest rates. Chikaonda enjoys the full backing of President Muluzi, who took the unprecedented step of attending Parliament for Chikaonda's budget presentation. Over the past 12 months the Government has become more vocal in its criticism of corruption, and the Anti-Corruption Bureau more assertive in its investigations. While there are free and lively print media, the Government still exercises control of the two radio stations (the only nationwide stations) of the Malawi Broadcasting Corporation (MBC). MBC does not air some news items, especially those about labor or opposition party positions. Two private radio stations, Capital Radio FM 102.5 and FM 101, broadcast news which includes a broader spectrum of opinion. These stations, however, reach only limited areas, primarily in Malawi's Southern Region. Malawi's first and only television station, "TV Malawi " began operations in March 1999. International television networks are accessible through pay television broadcasts via rooftop antennas and through private satellite dish receivers.

Nature of Political Relationship with the United States

19. Malawi has sound diplomatic, commercial, and social ties with the United States. The U.S. Mission enjoys access to and congenial relations with the Government of Malawi, as well as with opposition parties, business and commercial organizations, and representatives of other sectors of Malawi society. About two dozen U.S. businesses have local subsidiaries or agency relationships. Peace Corps volunteers and American missionaries are located throughout the country. In recent years, the United States has been the third leading bilateral donor to Malawi.

IV. Marketing U.S. Products and Services

Distribution and Sales Channels

20. Product distribution in Malawi can be problematic since some rural areas are difficult to reach and become inaccessible during the rainy season (roughly November to April). In addition, there is negligible purchasing power outside cities. Some local companies have a network of rural distributors, but many firms opt to reach rural markets through wholesale arrangements with local entrepreneurs.

Use of Agents and Distributors

21. Subsidiary or affiliate companies of U.S. organizations operate in several areas including agro-industry and tobacco, computers/office equipment, and petroleum products. Finding partners or agents and distributors for U.S. products should not be difficult.

Franchising

22. There are no restrictions on franchising in Malawi

Direct Marketing

23. The Malawi business community is aware of a limited range of U.S. products. A U.S. company may market directly through an established importer, by winning a tender, or by opening an office in Malawi. Since most products imported into Malawi come from nearby South Africa, competitive pricing and reliability of supply are essential to enter and stay in the market.

Joint Ventures/Licensing

24. The Government of Malawi allows joint ventures under the Partnership Act. The amount and form of capital invested in a joint venture are not regulated. Joint ventures, however, must be

licensed by the Registrar General in the Ministry of Justice.

Steps to Establishing an Office

25. The Government of Malawi is officially supportive of foreign businesses interested in establishing agency, franchise, joint venture, or licensing relationships. The Malawi Investment Promotion Agency (MIPA) publishes "A Roadmap for Investors" which may be obtained upon request. Other Malawi organizations useful in establishing commercial links with Malawi are: the Malawi Confederation of Chambers of Commerce and Industry, the Malawi Development Corporation (MDC), and the Malawi Export Promotion Council (MEPC). (Addresses are provided in Appendix D.)

Selling Factors/Techniques

26. Most manufacturers distribute their products through wholesalers or agents.

27. The U.S. Embassy in Lilongwe has a U.S. Economic/Commercial Officer and a Malawi Economic/Commercial/Labor Specialist. The Public Affairs Section of the U.S. Embassy, also in Lilongwe, houses a small commercial library.

Advertising/Trade Promotion

28. Malawi has one television station which is government-funded. The elite owns satellite dishes and videocassette recorders. Product advertisement can be done through the print media and radio broadcasting. The newspapers with the largest circulation are The Nation and The Daily Times. The Malawi Broadcasting Corporation (MBC) reaches significantly more Malawians than any other radio station or any of the print media.

Product Pricing

29. Prices for most goods are generally market-determined. Petroleum and sugar are still subject to some degree of price controls. The maize price floats within a Government-set price band. State-provided utilities and services (telephones, water, electricity, etc.) are also subject to varying degrees of government price administration.

Sales Service/Customer Support

30. A number of companies and agents offer these services.

Selling to the Government

31. The Government of Malawi issues periodic tender notices for supplies and services in local

and international publications 15 to 90 days before the bids are due. Detailed bid documents are normally obtained from a specific Government ministry, department or agency for a non-refundable fee. Completed bids accompanied by a specified deposit are usually submitted to The Secretary, Malawi Government Central Tender Board (MGCTB), Kirkcaldy House, Livingstone Avenue, P.O. Box 51300, Limbe, Blantyre, Malawi. Bids are often opened in the presence of bidders or their representatives. The Embassy sends Trade Opportunity (TOP) telegrams with information on major public bids to the National Trade Data Bank (NTDB - see paragraph 7) at the U.S. Department of Commerce in Washington, DC.

Protecting your Product from IPR Infringement

32. See paragraph 74.

Need for a Local Attorney

33. A local attorney is required only when preparing "Articles of Association" before registering a company.

Checking Bona Fides

34. Firms that specialize in verifying the authenticity, diligence, and bona fides of banks, agents, and customers do not exist in Malawi. It is not difficult, however, to obtain information on business entities.

V. Leading Sectors for U.S. Exports and Investment

Best Prospects For Non-agricultural Goods And Services

Used Clothing

35. The Government of Malawi legalized the importation of used clothing in 1994. Given most people's limited purchasing power, used clothing is in great demand.

Used Equipment/Vehicles

36. Used equipment and vehicles -- particularly trucks -- are in demand.

Computers and Computer Peripherals

37. U.S. products dominate about half of the growing Malawi market for computers and computer peripherals. On July 31, Malawi eliminated import duties on computers, uninterrupted power

supply (UPS) units, and computer printers.

Aid Projects

38. Donor support for Malawi has created opportunities for U.S. businesses to supply materials, equipment, and expertise for donor-financed projects in various areas, especially the Government's priority sectors outlined in paragraph 40. The U.S. Agency for International Development (USAID), the World Bank, and the African Development Bank/Fund are the major donors for projects for which U.S. firms are eligible. (Paragraph 31 contains procedures for public tenders.)

Telecommunications

39. The Government of Malawi is upgrading its telecommunications systems and infrastructure. Some U.S. firms have already entered this sector, but opportunities for other firms still exist. Malawi's second GSM cellular telephone network -- "Celtel Malawi " operated by Mobil Systems International (MSI) of Britain -- began operations in Blantyre in July 1999. MSI has since expanded service to Lilongwe, Mzuzu, Zomba, Salima, and parts of the southern lakeshore.

40. The Malawi Government established the Malawi Communication Regulatory Authority (MACRA) in May 1999 (as a regulatory body) and split the former Malawi Posts and Telecommunication Corporation (MPTC) into the Malawi Posts Corporation (MPC) and the Malawi Telecommunications Limited (MTL) as separate businesses in May 2000. (See paragraph 10.) The Malawi Government is looking for a strategic partner for MTL, but plans to retain public ownership of MPC.

Roads Infrastructure

41. The road sector generally provides significant investment opportunities for investors who form joint ventures with local contractors. Although traffic volume may not be adequate, the Government is presently investigating the feasibility of introducing toll roads in Malawi on a build-operate-transfer basis.

Best Prospects for Agricultural Products

42. Agriculture is the sector in which Malawi competes most successfully in international markets. Tobacco, tea, sugar and coffee are Malawi's most important cash crops. Given the uncertain long-term outlook for tobacco sales, Malawi needs alternative export crops. U.S. goods or technical knowledge that could adapt in a cost-effective manner to Malawi agricultural conditions and boost the quality, quantity, or diversity of crops might find a profitable market.

VI. Trade Regulations, Customs and Standards

Trade Barriers

43. The Government of Malawi is working to reduce and/or eliminate various tariff and non-tariff barriers. Malawi operates a liberal import and export-licensing system with restrictions largely based on health, safety and national security reasons. All Current Account transactions are fully liberalized. Since May 2000, Malawi has maintained a managed-floating exchange rate system which the Reserve Bank of Malawi (RBM) regulates through an auction system. (See paragraph 58.)

Trade Licenses

44. Trade licensing covers thirteen import and six export commodities. Import licenses are required for military, naval, air force or police uniforms; radioactive substances; mist nests for wild birds; wild animals, trophies and products of such animals; live fish; compound products for use as animal feed (with exceptions); live poultry and eggs; meat (with exemptions); dieldrin; aldrin; and salt. Goods in transit, used personal and household effects, temporary imports by bona fide tourists, goods less than Mk 2,000 in value, sample products, and advertising materials are exempted from import licensing.

45. Export licenses are required for implements of war other than arms and ammunition; petroleum products; wild animals, trophies and products of such animals; maize and maize meal; unprocessed tobacco; and tea. The Ministry of Commerce and Industry issues import and export licenses. It frequently reviews the lists of goods subject to licensing. Licenses are valid for six months, but may be extended.

Trade taxes

46. Domestic protection through tariffs is gradually diminishing as the government continues to shift sources of revenue collection from customs duties to consumption and direct taxes. Import duties vary according to product and country of origin. As a member of The Southern African Development Community (SADC) and the Common Market For Eastern And Southern Africa (COMESA), Malawi grants reciprocal preferences to member states of these organizations. Malawi has bilateral trade agreements with South Africa and Zimbabwe, both of which allow duty-free entrance of Malawi products. In 1998, the government eliminated export taxes on tobacco, sugar, tea and coffee. The maximum import tariff rate is 25%. In June 2000 the Government reduced tariff rates on intermediate goods and raw materials from 15 to 10%, but extended a 20% surtax to commercial transport fees. COMESA members plan to eliminate duties for member-states in October 2000. A ten-percent reduction in duties under the SADC Trade Protocol is planned to come into effect in January 2001.

Customs Valuation

47. The Government has a contract with Societe Generale de Surveillance S.A. (SGS) to carry out, in the country of supply, pre-shipment inspection (PSI) of the quality, quantity, classification, value and related services of all imported goods, except:

--- Goods with an f.o.b. value not exceeding USD 2,000. Partial shipments below this value limit are subject to inspection if the total value of the goods under the contract covering such shipments exceeds USD 2,000.

--- Goods involving no payment for their import into Malawi.

--- Government imports of goods intended for military or paramilitary use.

--- Live animals; fresh, chilled or frozen fish and meat; fruits, vegetables, eggs; scrap metals; newspapers and periodicals; goods granted remission of duty; precious and semi-precious stones; precious metals; antiques; postal parcel shipments; commercial samples; goods destined for Export Processing Zones (EPZs) and bonded factories; and petroleum products.

48. The Malawi Government's contract with SGS (extended in February 2000 for one year, see paragraph 92), has a WTO PSI agreement appended to it. It has clear guidelines, procedures and standards with which importers, suppliers and SGS must comply in order to speed up the inspection process. Pre-shipment inspection will result in either a Clean Report of Findings (CRF) or a Discrepancy Report (DR). A CRF is required for importers in Malawi to clear goods through customs and for exporters to collect payment.

Import/Export Documentation

49. According to customs regulations, the following documents can be demanded by customs officials:

--- Transport by Road Vehicle: A complete list of the goods carried; copies of all waybills; and copies of consignment notes.

--- Transport by Aircraft: Manifests of the cargo signed by an authorized person at the point of departure; lists of the passengers and crew; lists of any goods on board which are accompanying passengers (i.e. baggage); the clearance, if any, from the last foreign port; and the aircraft's journey log book.

--- Transport by Train: Copies of invoices, waybills, delivery and advice notes, and other documents for goods which will be entered at that port; lists of all goods carried on the train other than the cargo.

--- A "Clean Report of Findings" from the SGS affiliate in the exporting country.

Temporary Entry

50. Under Malawi law, the Controller of Customs and Excise is authorized to allow the temporary importation of goods. The Controller may impose conditions on temporary importation -- such as mandatory re-export -- and may allow entry "for such period as he thinks fit" and "for such purposes as he may approve." Temporary entry is customarily authorized when goods are in transit to other countries, or when goods are accompanying tourists.

Standards

51. The Malawi Bureau of Standards (MBS), a member of the International Bureau of Standards, promotes conformity with internationally accepted standards. MBS prescribes and enforces product standardization in Malawi. All products manufactured locally for export must obtain an MBS certification before export. Hotel and catering services are also subject to MBS reviews.

Free Trade Zones/Warehouse

52. See paragraph 101.

Membership in Free Trade Arrangements

53. Malawi is a member of the World Trade Organization (WTO) and two regional trade blocs: the Southern African Development Community (SADC) and the Common Market of East and Southern Africa (COMESA). Under the COMESA Treaty, all goods may be traded among member states under preferential treatment as long as they satisfy the prescribed rules of origin. The SADC Trade Protocol calls for the establishment of a SADC Free Trade Area (now set for September 1, 2000) that stipulates the gradual elimination of tariffs between member states over a 12-year period. Despite Malawi's membership in these organizations, interregional trade has not been a strong component of Malawi's exports.

54. Customs Contact Information:

- The Commissioner General
- Malawi Revenue Authority
- Private Bag 247
- Blantyre, Malawi
- Tel: (265) 622 588
- Fax: (265) 620 202

VII. Investment Climate

Openness to Foreign Investment

55. The Government encourages both domestic and foreign investment in most sectors of the economy, without restrictions on ownership (see paragraph 3), size of investment, source of funds, and destination of final product. The Competition And Fair Trading Act -- passed by Parliament in November 1998 but made operational in April 2000 -- aims to regulate and monitor monopolies and the concentration of economic power, protect consumer welfare, and strengthen the efficient production and distribution of goods and services. The Act calls for the formation of a commission that will authorize only acquisitions, mergers and takeovers that increase employment and net exports, and lower prices for consumers. During the first half of 2000 the U.S.-based FCA Investment Company, together with the two local companies, acquired about 63% shares in the national insurance company of Malawi (NICO) through a cash takeover. As of July 2000 the Ministry of Commerce and Industry was forming a secretariat to oversee implementation of the Competition and Fair Trading Act.

56. There is no government screening of foreign investment in Malawi. Apart from the Privatization Program (see paragraph 3), the Government's overall economic and industrial policy does not have discriminatory effects on foreign investors. Since industrial licensing in Malawi applies to both domestic and foreign investment, and is only restricted to a short list of products, it does not impede investment, limit competition, protect domestic interests, or discriminate against foreign investors at any stage of investment. Restrictions are based on environmental, health, and national security concerns. Affected items are firearms; ammunition, chemical and biological weapons; explosives; and manufacturing involving hazardous waste treatment/disposal or radioactive material. All regulations affecting trade (foreign exchange, taxes, etc.) Apply equally to domestic and foreign investors.

57. All investors, irrespective of ethnic group or source of capital (foreign or local) may participate in the Privatization Program. However, the Malawi Stock Exchange regulations limit participation of an individual foreign portfolio investor to a maximum of 10% of any class or category of security under the program; and limit maximum total foreign investment in any portfolio to 49%. The Privatization Act also prohibits members of the Cabinet, or employees of the Commission, or its consultants to participate in any divestiture except where an offer is made to the general public. Malawi nationals are offered preferential treatment, including discounted share prices and subsidized credit. As of July 2000, the maximum subsidized credit amount had been increased from 20,000 Malawi Kwacha (Mk) (about 357.1 USD) to Mk50, 000 (about 892.86 USD) and the minimum income threshold of Mk10, 000 per month (about 178.6 USD) was removed. Subsidized credit carries a precondition that the shares or assets be retained for at least two years. As of July 2000, Malawi had privatized nearly half of an approximate 80 state-owned enterprises targeted for privatization, generating about Mk1.0 billion (about USD 17.86 million).

Conversion and Transfer Policies

58. There are no restrictions on remittance of foreign investment funds (including capital, profits, loan repayments and lease repayments) as long as the capital and loans were obtained from foreign sources and registered with the Reserve Bank of Malawi (RBI). The terms and conditions of international loans, management contracts, licensing and royalty arrangements, and similar transfers require initial RBM approval. RBM grants approval according to prevailing international standards; subsequent remittances do not require further approval. All commercial banks are authorized by the RBM to approve remittances, and approvals are fairly automatic as long as the applicant's accounts have been audited and sufficient foreign exchange is available. Businesspeople report no/no major problems with foreign currency remittances. Traditionally, foreign exchange availability follows the agricultural cycle in Malawi. It is plentiful from April through September (when tobacco sales generate foreign exchange inflows), and scarce from October through March. During periods of scarcity, investors may not have immediate access to foreign exchange. As of May 2000, foreign reserves equaled 4.3 (USD 257.2 million) months of import cover. (See paragraphs 96 and 97.)

Expropriation and Compensation

59. Malawi's constitution prohibits deprivation of an individual's property without due compensation. There are effective laws that protect both local and foreign investment. The likelihood of expropriatory actions has been extremely remote since the repeal of the forfeiture act in 1992. Although public tenders for the sale of shares of state-owned enterprises often encourage local participation, foreign investors tend to dominate the shareholding of large MSE-listed companies requiring significant technical and financial resources.

60. The Land Reform Commission -- which the Government established in 1996 to review land tenure and establish a new land reform program -- presented its final report to the President in November 1999. As of June 2000, the Ministry of Lands was synthesizing all the land policy review work since 1994 to produce and submit new land policy legislation for cabinet and parliamentary approval before the end of CY 2000. The draft law will likely incorporate many recommendations of the Commission's report, including the abolition of freehold tenure (owners hold permanent title), and the conversion of all freehold titles to leasehold (owners hold land on lease for a maximum period of 99 years.) As of July 2000, the Malawi Government had stopped issuing freehold land.

61. At present, the Government may employ land acquisition procedures set forth in the Land Acquisition Act of 1971. According to this Act, the government must justify its acquisition as being in the public interest and must pay fair market value for the land. Fair market value is assessed by summing the amount the owner originally paid for the land, the value of any permanent improvements that increase the productive capacity, utility or amenity of the land, and any appreciation of the land value. If the private landowner objects to the level of compensation,

he may obtain an independent assessment of the land value. According to the Act, however, such cases may not be challenged in court; the Ministry of Lands, Housing, Physical planning, and surveys remains the final judge. Most land in Malawi is leasehold.

Dispute Settlement

62. Malawi has an independent but overburdened judiciary, which derives its procedures from English Common Law. There is little government interference in the court system, although there have on occasion been allegations of government involvement - largely through public comments made by politicians on certain cases. There are also frequent allegations of bribery in civil and criminal cases. Administration of the courts is weak, and due process can be very slow. Serious shortcomings in the judicial system include poor record keeping, a lack of attorneys and trained personnel, heavy caseloads, and insufficient financial resources.

63. The court system in Malawi accepts and enforces foreign court judgments that are registered in accordance with established legal procedure. There are, however, reciprocal agreements among commonwealth countries to enforce judgments without this registration obligation. There is no such agreement between Malawi and the U.S.

64. Malawi has legislation that offers adequate protection for property and contractual rights. (See paragraph 74.) Malawi has written commercial laws, which codify Common Law. The Sale-Of-Goods Act, the Hire-Purchase Act, and the Competition and Fair Trading Act (see paragraph 55) cover commercial practices. The first two Acts have been consistently applied, and there is a track record of cases involving commercial law. There is also a written and consistently applied Bankruptcy Law based on Common Law. Under Bankruptcy Law, secured creditors -- ranked-ordered based upon investment registration dates -- have first priority in recovering money. Monetary judgments are usually made in the investor's currency. However, the immediate availability of foreign exchange is dependent upon supply, which varies on a seasonal basis. (See paragraph 58.)

65. Malawi is a member of the International Center for Settlement of Investment Disputes (ICSID), and accepts binding international arbitration of investment disputes between foreign investors and the state if specified in a written contract. There have been no investment disputes involving U.S. Companies since 1996.

Performance Requirements/Incentives

66. Malawi is not in compliance with WTO Trade Related Investment Measures (TRIM) notification requirements. However, Malawi does not set performance requirements for establishing, maintaining or expanding an investment. Nor does it place requirements on ownership, source of financing, or geographic location. The Government accords EPZ status only to firms (foreign or domestic) that produce exclusively for export. (See paragraph 101.)

67. Malawi offers the following incentives, which apply equally to domestic and foreign investors:

- a corporate tax rate of 35%;
- the following tax allowances:
 - 40% for new buildings and machinery;
 - up to 20% for used buildings and machinery; and
 - 100% deduction for manufacturing company operating expenses in 2 years prior to start of business;
 - no withholding tax on dividends;
- no import duty on raw materials for manufacturing industry (N.B. This policy is being implemented at the discretion of the Customs and Excise Department. Several manufacturers have recently complained of delays and denial of this incentive.);
- no import duty on computer equipment and accessories
- tax holidays or reduced corporate tax for some new investments; and
- a maximum import tariff rate of 25%.

68. Malawi offers the following special incentives for exporters:

- for exporters in EPZs:
 - no corporate tax, value added tax, or withholding tax on dividends;
 - no import duty on capital equipment and raw materials; and
 - no excise taxes on local purchases of raw materials and packaging.
- for industries manufacturing in bond:
 - an allowance of 12% of export revenues for products other than Tobacco, tea, sugar and coffee;
 - transport allowance of 25% of all international transport costs;
 - no import duties on capital equipment;
 - no import duties or surtaxes on raw materials; and
 - no excise tax on local purchases of raw materials and packaging material.

69. The incentives in para's 67 and 68 are applied consistently. Foreign investors are generally accorded national treatment. U.S. and other foreign firms are able to participate in government/donor-financed and/or subsidized research and development programs. The following information is required to register and incorporate an investment/company: name of company, authorized share capital, registered office, location of books of accounts, address of the company secretary, and names of directors and shareholders.

70. Visas do not inhibit investors, but employment permits sometimes can. Expatriate employees (of both domestic and foreign businesses) who reside and work in Malawi must obtain temporary employment permits (TEPs).

71. The government issued a revised "Policy Statement and New Guidelines for The Issuance and Renewal of [Expatriate] Employment Permits" (one document) in November 1998. The new guidelines state that investors may employ expatriate personnel in areas where there is a shortage of "suitable and qualified" Malawians. They underscored the government's desire to make TEPs readily available to expatriates, and mandated that processing times for TEP applications shall not exceed 40 working days. The 1998 policy provides for two types of TEPs: those for "key posts" (defined as positions of "strategic importance" in business operations) which are granted for the life-span of the organization; and those for "time posts" (defined as positions with contracts of three-year duration or less) which are granted for three-year periods and renewable once. The U.S. Embassy has received no/no complaints concerning TEPs within the past 12 months.

72. The Malawi Government issues Business Residence Permits (BRPs) to foreign nationals who own/operate businesses in Malawi. BRPs are issued for five-year periods and are renewable. Permanent Residence Permits (PRPs) are issued to foreign spouses who reside permanently in Malawi, and to owners/operators of businesses who reside in Malawi for periods in excess of ten years. PRP holders cannot work as employees. As of July 2000 Malawi's immigration laws governing BRPs and PRPs were being revised, with a draft policy statement pending Cabinet approval. The draft statement proposes four categories of residence permits based on amount of investment, status of applicant (investor, retiree, student, spouse of a Malawi citizen) and period of business assignment. The proposed maximum number of resident permits per organization is 5, and shall depend on amount of investment.

Right to Private Ownership and Establishment

73. The government encourages both domestic and foreign investors to establish and own business enterprises in most sectors of the economy. All investors have the right to establish, acquire, and dispose of interests in business enterprises. Public enterprises compete equally with private entities with respect to access to markets, credit and other business operations.

Protection of Property Rights

74. Both foreign and domestic investors have access to Malawi's legal system, which functions fairly well, albeit slowly. Malawi has laws that govern the acquisition, disposition, recording and protection of all property rights (land, buildings, etc.) As well as intellectual property rights (copyrights, patents and trademarks, etc.). The government has signed and adheres to bilateral and multilateral investment guarantee treaties and key agreements on intellectual property rights. Malawi is a member of the convention establishing the multilateral investment guarantee agency, the World Intellectual Property Organization (WIPO), the Berne Convention, and the Universal

Copyright Convention.

75. The Copyright Society of Malawi (COSOMA), established in 1992, administers the 1989 copyright act which protects copyright and "neighboring" rights in Malawi. The Registrar General administers the Patent and Trademarks Act which protects industrial intellectual property rights in Malawi. A public registry of patents and patent licenses is kept. Patents must be registered through an agent. Trademarks are registered publicly following advertisement and a period of no objection. WTO rules allow Malawi (as a less developed country) to delay full implementation of the TRIPs agreement until 2004. The Ministry of Commerce and Industry (MCI) -- coordinator of WTO issues in Malawi -- has limited capacity to effectively track WTO developments. In July 2000 the MCI told the U.S. Embassy that it was working with COSOMA and the Registrar General to align relevant domestic legislation with the WTO TRIPs agreement, and that the Registrar General had already started the process of seeking technical assistance from the Africa Regional Intellectual Property Organization (ARIPO).

Transparency of the Regulatory System

76. Malawi's industrial and trade reform program -- including rationalization of the tax system, liberalization of the foreign exchange regime, and elimination of trade and industrial licenses on several items and businesses -- has produced written guidelines intended to increase government use of transparent and effective policies to foster competition. No tax, labor, environment, health and safety or other laws distort or impede investment. However, procedural delays, red tape, and corrupt practices continue to impede the business and investment approval process. These include decisionmaking, which is often neither transparent nor based purely on merit, and required land-access approvals. While market prices for goods are generally not controlled, prices of certain other goods -- sugar (not well enforced), maize, petroleum products, and state-provided utilities -- are regulated.

77. Recent positive steps towards increasing regulatory transparency and improving the foreign investment environment include the establishment of the National Electricity Council in October 1998; the establishment of the Malawi Communication Regulatory Authority (MACRA) in May 1999; the licensing and operation of a second cellular phone service provider in 1999; and the splitting of the former Malawi Posts and Telecommunication Corporation (MPTC) into the Malawi Posts Corporation (MPC) and Malawi Telecommunications Limited (MTL) as separate businesses in May 2000. The state-owned Petroleum Control Commission (PCC) relinquished its monopoly on petroleum imports in May 2000, allowing the private sector to import 80% of Malawi's fuel. PCC now plays a primarily regulatory function within the petroleum sector.

Efficient Capital Markets and Portfolio Investment

78. Fiscal and monetary discipline slackened a bit in 1999, with inflation and interest rates still high. In December 1999, growth in money supply (m2) was 33.6 and 42.1% on year-on-year

(YOY) and average annual (AVA) bases, respectively; inflation was 28.4 (YOY) and 44.8% (AVA); the discount rate was 47%; commercial bank base lending rate was 47.5%; t-bill yield rates were 39.2, 44.38 and 50.7% for the 91-day, 182-day and 271-day tenors, respectively; and the Mk/USD exchange rate was 46.5.

79. The economy began to show small signs of improvement in the first half of 2000. In April, growth in money supply (m2) reduced to 11.8 (YOY) and 36.7 (AVA) %; and inflation declined to 24.9 (YOY) and 33.4 (AVA) % in May. However, commercial bank rates rose, with the maximum deposit and base lending rates hovering at 33 and 49.5%, respectively in June; t-bill yield rates rose to 42.35, 56.92 and 60.36% for the 91-day, 182-day and 271-day tenors, respectively; and the Mk/USD exchange rate depreciated to 55 in June.

80. The private sector in Malawi has a variety of credit instruments. Credit is generally allocated on market terms. Foreign investors may utilize domestic credit, but proceeds from investments made using local resources are not remittable.

81. Malawi has a sound banking sector, overseen and well regulated by the Reserve Bank of Malawi - its central bank. There are five full-service commercial banks : First Merchant Bank Limited; Finance Bank of Malawi; Indefinance; National Bank of Malawi (NBM) and Commercial Bank of Malawi (CBM). Additional financial institutions include: Loita Investment Bank, Investment and Development Bank of Malawi (INDEBANK), Investment and Development Fund of Malawi (INDEFUND), the Malawi Development Corporation (MDC), Finance Corporation of Malawi (Fincom), Leasing and Finance Company of Malawi (LFC), Malawi Savings Bank (MSB), the New Building Society (NBS), the Malawi Rural Finance Company (MRFC), and the Continental Discount House.

82. NBM and CBM, which operate on a commercial, for-profit basis, have dominated Malawi's commercial banking sector for the past 30 years. As of December 1999, the total asset base for Malawi's five commercial banks was Mk 16.6 billion (USD 378.49 million), of which NBM and CBM controlled 87.5%. Market shares for the remaining banks were as follows: FMB, 6.4%; FBM, 3.8%; and Indefinance, 2.2%. Total commercial bank deposits amounted to about Mk 12.6 billion (USD 271.52 million), of which NBM held 45.5% and CBM held 43.2%. Market shares for the three other banks were as follows: FMB, 5.4%; FBM, 3.8%; and Indefinance, 2.0%.

83. The Malawi government and the conglomerate Press Corporation Limited (PCL), in which the government holds a 49% stake, dominate the ownership of the Malawi banking sector. PCL holds 48 and 23% of NBM and CBM shares, respectively. The state-owned Agricultural Development and Marketing Corporation (ADMARC) owns a 39% share in NBM (see paragraph 87), while the state-owned Malawi Development Corporation (MDC) holds 17% of CBM shares. The government holds directly a 22% in CBM. In total, the government owns, through direct and indirect means, approximately 39% of both banks. The remaining shares in CBM belong to PCL (23%), the National Insurance Company of Malawi (NICO) (26%) and to the general public

(12%); those of NBM belong to PCL (48%) and South Africa Mutual Life Assurance Society (13%).

84. The Companies Act, the Capital Market Development Act (1990), and the Capital Market Development Regulations (1992) provide the legislative and regulatory framework for the encouragement and facilitation of portfolio investment in Malawi. The attendant legal, regulatory and accounting systems are transparent and consistent with international norms. These acts govern the Malawi Stock Exchange (MSE).

85. Stockbrokers Malawi Limited (SML) is the only registered stockbroker in Malawi. SML ran the MSE under a 3-year contract with the RBM until April 1, 2000 when the two split to assume separate roles of a broker and regulator, respectively. MSE expects two other brokerage firms to enter the exchange this year -- including one jointly owned by a Zimbabwean firm and NICO's asset management arm, NICORP.

86. SML runs a secondary market in government securities, and both local and foreign investors have equal access to the purchase of these securities. The following seven companies are listed on the MSE: NICO, Blantyre Hotels Limited (BHL), Sugar Corporation of Malawi (SUCOMA), Commercial Bank of Malawi (CBM), Packaging Industries of Malawi (PIM), Press Corporation Limited (PCL) and Old Mutual. As of June 2000, market capitalization, shares in issue and the all share index were Mk 417.58 billion (USD 7.46 billion), 4603.63 billion and 364.93, respectively. In 1999 share sale yield declined to Mk 290.7 million (USD 6.3 million) from Mk 354.6 million (USD 8.2 million) in 1998. Market capitalization, however, rose to Mk 367 billion (USD 7.92 billion) from Mk 6.6 billion (USD 148.97 million) and all share index rose to 337.58 from 220.68.

87. The government intends to sell a 14% stake in the National Bank of Malawi (NBM) in August 2000. As of July, there were no plans to offer stocks of other public enterprises for sale to the public. However, the already MSE-listed SUCOMA is seeking approval to dispose of a tranche of government's shares (through ADMARC) on the stock exchange in the near future. Malawi and other SADC markets are taking steps to harmonize listing requirements through the SADC stock exchanges co-operation initiative.

88. The MSE's development is still in its nascent stage, and hostile takeovers have not yet occurred. Apart from the restrictions under the privatization program (see paragraph 57), the U.S. Embassy in Malawi is not aware of any specific measures taken by private firms to restrict foreign investment or participation. Foreign investors tend to be the dominant shareholders in large MSE-listed companies requiring significant technical and financial resources. The Competition and Fair Trading Act (see paragraph 55) will not cover the day to day trading on the MSE, but will regulate mergers, acquisitions, and takeovers that are of national interest.

Political Violence

89. Malawi has been largely free of political violence since gaining independence in 1964. Apart from the disarming of the paramilitary Malawi young pioneers, incidents of violence associated with Malawi's 1994 transition to democracy were rare and minor. Sporadic, incidents of violence occurred at political rallies in late 1998. The 1999 presidential and parliamentary election campaigns were largely free of political violence, but there were sporadic, limited incidents of post-election violence (primarily small-scale property damage) in June 1999. (See paragraph 16.)

90. Incidents of labor unrest occasionally occur, but these are usually tame affairs. Armed robberies (including carjackings) have increased in recent years. There are, however, no nascent insurrections, belligerent neighbors, or other politically motivated activities of major concern to investors.

Corruption

91. There are serious incidences/allegations of corruption, particularly in the area of customs and excise tax and government procurement. The Corrupt Practices Act provides the legal framework for combating corruption in Malawi. However, the use of the Act so far has been insignificant.

92. The Anti-Corruption Bureau (ACB) is constitutionally mandated to investigate and prosecute corruption in Malawi. Opened in 1997 and fully staffed in 1998, the ACB has thus far brought forward one high-level case (filed in January 1999 and still pending in court as of July 2000) involving a former cabinet Minister of Works. During the past twelve months the ACB has emerged as an increasingly effective, independent law-enforcement institution. High-profile investigations led to the arrest of nine customs officials -- including the vice president of the Malawi Congress of Trade Unions (MCTU) -- in December 1999, and prompted the President to rescind a pre-shipment inspection contract in February 2000. Several ACB-generated cases are currently pending in court.

93. Malawi subscribes to the provisions of the OECD Convention on Combating Bribery, but is not a signatory of the Convention. Malawi's Penal Code prohibits bribery. Giving or receiving a bribe -- whether to or from a Malawian or foreign official -- is a crime under section 90 of Malawi's penal code. Accordingly, bribes are not tax deductible.

Bilateral Investment Agreements

94. Malawi's policy is to negotiate bilateral investment treaties with countries whose nationals opt to invest in Malawi. The United States-Malawi Double Taxation Agreement from the colonial period was canceled by the United States in 1983. To date, there is neither a bilateral investment nor a taxation treaty. There have been no taxation issues of concern to U.S. investors since 1996.

95. Malawi acceded to the Multilateral Investment Guarantee Agency (MIGA) in 1985/86. Since MIGA provides mechanisms for the settlement of investment disputes, Malawi has not renewed

several investment treaties that lapsed after 1986. However, the United Kingdom, the Netherlands, Denmark, South Africa, Norway, Sweden and Switzerland still maintain Double Taxation Treaties with Malawi.

OPIC and Other Insurance Programs

96. Malawi has had an OPIC investment guarantee agreement since 1967. As noted in paragraph 95, Malawi is also a member of MIGA. In August 1999 the U.S. Export-Import Bank included Malawi under its new Africa Short-term Export Credit Insurance Program. The estimated annual U.S. Dollar value of local currency likely to be used by the U.S. Mission is about USD 3.0 million. Malawi operates a managed-float exchange rate system in which the RBM buys or sells forex whenever foreign exchange reserves deviate significantly from targets jointly agreed upon with the IMF.

97. Foreign exchange in Malawi is plentiful from April through September. (See paragraphs 58 and 64). However, low tobacco prices this year have resulted in insufficient foreign exchange inflows, causing the RBM's reserve position to drop from 4.1 months of import cover (USD 244.5 million) in January to 3.4 months of import cover (USD 203.7 million) by mid-June. This -- coupled with a strong U.S. Dollar and the political/economic troubles in Zimbabwe -- undermined the country's foreign exchange reserve position and weakened the RBM's capacity to regulate the market, exerting significant pressure on the local currency. The Kwacha depreciated by about 19% from 46.60 at end-January to 55.49 at end-June. The government expects an improvement in the reserve position following a modest recovery in tobacco prices in June and July, and good prospects for normal balance of payments support inflows.

Labor

98. The Government of Malawi estimates that more than half of the population is of working age. Unskilled labor is plentiful. Skilled labor is scarce. Occupational categories with skills shortages include accountants and related personnel; economists; engineers; primary and secondary school teachers; lawyers; and medical and health personnel. The University of Malawi provides bachelors and masters degrees in economics, engineering, medicine, education, agriculture and administration. The Malawi College of Accountancy teaches accounting. Chancellor College operates the country's law school. In early 1999, the government established the Technical, Entrepreneurial and Vocational Education and Training (TEVET) program to address technical skills shortages in industry.

99. The Labor Relations Act (LRA) governs labor-relations management in Malawi. It was signed into law in June 1996, and entered into force on December 1, 1997. The Act allows strikes and lockouts for registered workers and employers only after all dispute settlement procedures in collective agreements and conciliation have failed. As democracy and trade union rights have existed for only seven years, industrial relations are still evolving. Employers, labor unions, and

government lack sufficient knowledge of their legitimate roles in labor relations/disputes.

100. Workers have the legal right to form and join trade unions. As of July 2000, 17 unions were registered. Union membership is low, however, given the small percentage of the work force in the formal sector (about 12%), the lack of awareness of worker rights and benefits, and a resistance on the part of many employees to join unions. Only 13% of people employed in the formal sector belong to unions. Unions may form or join federations, and have the right to affiliate with and participate in the affairs of international workers' organizations. There are no labor restrictions on choice of technology. While the government is a signatory to the ILO Convention protecting worker rights, mechanisms for enforcing the provisions of the convention are weak. There are serious manpower shortages at the Ministry of Labor, resulting in almost no labor-standard inspections.

Foreign Trade Zones/Free Ports

101. Legislation for the establishment of export processing zones (EPZs) came into force in December 1995. All companies engaged exclusively in manufacture for export may apply for EPZ status. As of July 2000 Malawi had approved 21 firms for EPZ status, of which 19 were operational and two had closed operations. A manufacturing under bond (MUB) scheme offers slightly less attractive incentives to companies that export some, but not all, of their manufactures. (See paragraph 68.)

Foreign Direct Investment Statistics

102. The RBM maintains records on the value and composition of foreign direct investment in Malawi. The U.S. Dollar value (in current dollars) of total annual FDI for the 1994 to 1998 time period follows:

<u>Year</u>	<u>Value (USD)</u>	<u>Sector(s)</u>	<u>Country of origin</u>
1994	426,00	Agriculture	United Kingdom
1995	4,354,041	Banking	Zambia
		Agriculture	Switzerland
		Property	Malta
		Other	U.K., S. Africa
		Garments	S. Africa
1996	14,075,234	Agriculture	U.K.
		Telecom	Malaysia
		Health	Malta
		Garments	S. Africa

		Other	USA
1997	5,734,982	Manufacturing Other	S. Africa USA, U.K.
1998	139,883	Textiles Chemicals Computers	S. Africa S. Africa U.K.

Source: Reserve Bank of Malawi.

N.B. The Reserve Bank cautions that these figures may under-represent the actual amounts of foreign direct investment.

VIII. Trade and Project Financing

----- Description of the Banking System

103. Paragraph 81 describes the banking sector in Malawi. Malawi neither has nor requires depositor insurance, but the RBM enforces strict safeguards and capital requirements. The RBM has strict reporting guidelines on capital adequacy, liquidity ratio, etc. International accounting standards adopted by the Society of Accountants in Malawi (SOCAM) apply to banks. Bank financial statements are in compliance with these standards, and are audited by internationally recognized firms including KPMG Peat Marwick, and Deloitte & Touche. In December 1999, net credit from the banking system to the public sector was Mk 941.1 million (approx. USD 20.3 million). Gross credit to the private sector totaled Mk 3365.3 million (approx. USD 72.6 million).

Foreign Exchange Controls Affecting Trade

104. In February of 1994, the Government of Malawi eliminated exchange controls on Current Account transactions (the capital account is still controlled) and introduced a market-based exchange rate system. Since May 2000, the RBM is using an auction system to regulate the foreign exchange market in Malawi. Importers do not need to obtain RBM approval to place international orders or to pay for imports. (See paragraph 58.) RBM-set exchange controls allow exporters to retain 40% of their foreign exchange earnings in Foreign Currency Denominated Accounts (FCDA) with local banks. The remainder of export foreign-exchange revenues must be converted into Malawi Kwacha. The RBM attributed the May-June depreciation of the Kwacha in part to the abuse of the retention scheme by FCDA holders who would not release the foreign exchange into the market in anticipation of a huge depreciation. See para --- for availability of foreign exchange in Malawi.

General Financing Availability

105. Kwacha-denominated financing is available from Malawi's commercial institutions. Credit is allocated on market terms, and foreign investors are eligible to apply for it. Proceeds from any investment using local resources, however, are not remittable.

106. Local financing for hard-currency-denominated transactions can be problematic, i.e., during shortages of foreign exchange. Imports into Malawi are financed primarily through secured letters of credit.

Export Financing and Insurance

107. OPIC has an investment guarantee agreement with Malawi. (See para 96.) Malawi is also covered under the U.S. Export-Import Bank's (Ex-Im Bank) new Africa Short-term Export Credit Insurance Program, but remains off-cover for most other Ex-Im bank programs.

Project Financing Available

108. The World Bank, through its International Development Agency (IDA), is Malawi's most consistent international source of financing for public projects. The African Development Bank (AFDB) and its affiliated Fund constitute another major source of project financing. The U.S. Agency for International Development (USAID), the World Bank, and the African Development Bank/Fund are the major donors for projects in which U.S. firms are eligible to participate. Several local financial institutions including INDEBANK have lines of credit from both regional and multilateral organizations for lending to domestic investors in need of foreign exchange.

Malawi Banks and Corresponding U.S.-based Banking Arrangements

109. Imports into Malawi are financed primarily through letters of credit (LCs). Commercial banks claim that most importers secure the LCs with cash up front in order to hedge against foreign exchange loss risks. Money is then transferred to foreign suppliers through correspondent banks.

110. National Bank of Malawi (NBM) - maintains banking relationships with over 30 correspondent banks, including Citibank (the biggest), Standard Chartered of New York, Chase Manhattan, Bank of New York, Equator Bank and Barclays Bank. Banking services include demand-deposit accounts, telegraphic transfers, and travelers' checks.

111. Commercial Bank of Malawi (CBM) - maintains banking relationships with Citibank, Chemical Bank, Bank of New York, Bank of America, and Equator Bank. Banking services include demand deposit accounts, telegraphic transfers, and Citibank travelers' checks.

112. Finance Corporation of Malawi (FINCOM) - maintains banking relationships with Citibank and Equator Bank. Banking services include demand deposit accounts and telegraphic transfers.

113. Investment and Development Bank of Malawi (INDEBANK) - maintains a banking relationship with Citibank. Banking services include demand deposit accounts, telegraphic transfers, and travelers' checks.

114. First Merchant Bank (FMB) - maintains banking relationships with Citibank and American Express. Banking services include demand deposit accounts and telegraphic transfers.

115. Finance Bank of Malawi (FBM) - Banking services include demand deposit accounts, telegraphic transfers, and Citibank travelers' checks.

IX. Business Travel

Business Customs

116. Malawians are characteristically helpful in both personal and business dealings.

Travel Advisory and Visas

117. The Department of State has no current travel advisory for Malawi. U.S. citizens do not require visas when entering Malawi for business or vacation travel. Temporary residence permits for up to 30 days are issued upon arrival in Malawi, but extensions are often granted. (See paragraphs 70 and 71.)

Holidays

118. Malawi's official 2000 holidays are as follows:

January 3 (New Year's), January 10 (Eid El Fitr), January 17 (John Chilembwe Day), March 3 (Martyrs' Day), April 21 (Good Friday), April 24 (Easter Monday), May 1 (Labor Day), June 14 (Freedom Day), July 6 (Republic Day), October 9 (Mothers' Day), December 25 (Christmas Day), and December 26 (Boxing Day).

Business Infrastructure

Ground Transportation

119. Paved two-lane highways connect Malawi's major cities of Lilongwe, Blantyre, Mzuzu, and Zomba. Highways also connect the lakeshore communities of Nkhosha, Nkhata Bay, Salima,

and Mangochi with Lilongwe and Mzuzu. Paved roads extend from Blantyre to the borders of Mozambique, from Lilongwe to the Zambian border, and from Karonga to the Tanzanian border. The roads' infrastructure significantly deteriorated in the recent past, but the government has made noticeable improvements following the recent establishment of the National Roads Authority (NRA). Road works are primarily carried out using asphalt cement and bitumen with chip coat. Inadequate drainage often contributes to the premature break up of road surfaces that are subject to washouts during the rainy season. Many dirt roads are not useable during the rainy season (roughly November to April).

120. Rental cars are available for hire in Blantyre and Lilongwe. Driving at night outside urban areas is unsafe. Malawi has an extensive network of buses, but only the best class bus service connecting Blantyre, Lilongwe, and Mzuzu is normally considered acceptable for business travel.

Air Transportation

121. (See paragraph 15.) Airports on the outskirts of Lilongwe and Blantyre handle international air traffic. The Government of Malawi has identified Air Malawi (a state-owned enterprise with 4 aircraft and a 182-seat capacity) as a candidate for privatization through commercialization and identification of a credible and strategic global partner.

122. All non-Malawi passport holders departing on international flights must pay a USD 20 airport departure tax (payable in USD only). The departure fee is Mk 100 (approx. USD 2) for domestic flights.

Rail Transportation

123. The Central East African Railways Company (CEAR) took over the operations of the former Malawi railways Limited in December 2000. (See paragraphs 13 and 14). CEAR operates limited passenger service in the southern part of the country, and Freight Service between Lilongwe, Blantyre, and the Mozambican port of Nacala. Freight service also extends south to the town of Makhanga near the Mozambique border.

Boat Transportation

124. Two state-owned companies -- Malawi Lake Services (MLS) and Lake Malawi Ports (LMP) -- provide lake transport services in Malawi. MLS (formerly part of Malawi Railways -- see paragraph 14) offers limited freight and passenger services on Lake Malawi. It has a shipyard and workshops at Monkey-Bay, and 14 vessels of which 9 are operational). The vessels have capacity to transport containers, petroleum products and passengers through the ports of Chilumba and Chipoka on Lake Malawi, including stops in Tanzania and Mozambique. LMP, a section of the Marine Department of the Ministry of Transport and Public Works, provides navigational aids, and owns the facilities at the three major ports of Chipoka, Chilumba and Nkhata Bay.

Languages

125. English, the official language of Malawi, generally suffices for business communication, although few rural Malawians speak it. The most common vernacular languages include Chichewa (spoken throughout the country), Chitumbuka (spoken primarily in the North), and Chiyao (spoken primarily in the South).

Communications Facilities

126. Malawi's telecommunications infrastructure is overburdened, and telephone service throughout Malawi has been poor. Malawi Telecoms Limited's (MTL) telephone penetration rate of 0.4% of the population is the lowest in the SADC region. MTL has a waiting period for acquiring new telephone lines as high as 10 years. However, introduction of private sector participation in the telecommunications sector has begun to improve services. (See paragraphs 12 and 40.) Malawi has two GSM cellular telephone networks and two Internet gateway providers. Most corporate offices and tourist class hotels have telephones and faxes. The international country code for Malawi is 265; there are no city codes.

Housing

127. Short-term visitors to Malawi would most likely stay in tourist-class hotels, which are located in major urban areas and lakeside resorts. Accommodations in rural areas are generally not recommended. Expatriate residents in Malawi generally live in modern housing in the major urban centers. Power and water are generally available in major cities, but supply interruptions are common. The housing markets in Lilongwe and Blantyre are relatively tight. Local real estate agents are available to help locate housing.

Health

128. Malawi's national health facilities are far below Western standards. Malaria and other tropical diseases are prevalent throughout the country. Much of Lake Malawi is infested with schistosomiasis (bilharzia). Malaria prophylaxis is recommended while in Malawi, as is a comprehensive immunization regime before entering the country. The Embassy recommends drinking only boiled, bottled, or distilled water. Raw, unpeeled fruits and vegetables should be avoided.

Food

129. A variety of food is normally available in Malawi's urban areas. A few stores carry limited selections of imported goods. There are a handful of restaurants in both Lilongwe and Blantyre which expatriates patronize. Rural areas have very few restaurants, almost none of which attract

foreigners.

Temporary Entry of Goods

130. (See paragraph 50.)

Product Pricing Structures

131. (See paragraph 29.)

Guide for Business Representatives

132. U.S. business travelers are encouraged to obtain a copy of the "Key Officers of the Foreign Service Posts: Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; tel. (202) 512-1800; fax (202) 512-2250. Business travelers to Malawi seeking appointments with U.S. Embassy Lilongwe officials should contact the commercial section in advance. The commercial section can be reached by telephone at (265) 773-166/342/367/848 or by fax at (265) 770-471.

X. Economic and Trade Statistics

Appendix A -- Domestic Economy

	1998	1999	2000(1)
GDP (USD million)(2)	1241.38	1727.64	2273.36
GDP Growth Rate (percent) (3)	3.3	4.2	5.1
GDP per capita(USD)	126.67	173.3	222.88
Government Expenditure (Percent of GDP) (4)	24.3	25.2	28.9
Inflation (5)	29.7	44.8	30.4
Unemployment	n.a.	n.a.	n.a.
Foreign Exchange Reserves (USD million)(6)	256.91	246.44	n.a.

Average Exchange Rate for USD 1.00	44.37	46.35	56.0
Foreign Debt (USD billion)	2.3	n.a.	n.a.
Debt Service Ratio (% of exports and non-factor services)	14.9	17.6	n.a.
Interest Payment on Foreign Debt (USD million)	47.0	50.0	n.a.
U.S. Economic/military Assistance (USD million)	34.8	37.6	n.a.

N.B. The above statistics are unofficial estimates.

1. Preliminary Projections
2. Current Market Prices
3. Real growth
4. Fiscal Year
5. Average Annual Inflation
6. Gross Official Reserves
7. "n.a." denotes data not available.

SOURCES:

Ministry of Economic Planning and Development, Economic Report 2000

Appendix B -- Trade Statistics

<u>1998</u>	<u>1999</u>	<u>2000</u>
Total Malawi Exports (f.o.b.) (USD million)		
377.2	446.2	504.1
Total Malawi Imports (c.i.f.) (USD million)		

446.1	663.6	796.3
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U.S. Exports (USD million F.A.S)

14.5	7.4	1.4*	3.4**
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U.S. Imports (USD million Customs Value)

60.5	72.5	16.2*	28**
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* Jan.-Mar. 1999

** Jan.-Mar. 2000

N.B. The above statistics are unofficial estimates.

SOURCES:

1. Ministry Of Economic Planning and Development, Economic Report 2000
2. U.S. Dept. of Commerce, U.S. Trade with Sub-Saharan Africa

Appendix C -- Country Data

	1998*	1999**	2000**
Population:			
(million)	9.8	9.97	10.2
Growth Rate:			
(percent)	2.0	2.0	2.0

* Preliminary census results

** Estimate based on 2% growth rate

Religions: Protestant Sects, Catholicism, and Islam.

Government System: Democracy.

Languages: English (official language), Chichewa, Chitumbuka, Chiyao, Chitonga, Chilomwe, and

Chisena.

Work Week: Monday to Friday, and Saturday morning for most retail establishments.

SOURCES: Ministry of Economic Planning and Development

XI. U.S. and Country Contacts

Appendix D -- U.S. and Country Contacts

Country Government Offices

NOTE: As of July 2000, Malawi Telecoms was in the process of changing the telephone numbers in the Lilongwe Areas. Most numbers that begin with 78 are being changed to begin with 77. If the 78... number does not connect, try 77...

Secretary to the President and Cabinet
Office of the President and Cabinet
Private Bag 301
Lilongwe 3, Malawi
Tel: (265) 789-311/823/263/005
Fax: (265) 782-095/783-758

Principal Secretary
National Economic Council
Box 30136
Lilongwe 3, Malawi
Tel: (265) 782-300
Fax: (265) 782-224

Principal Secretary
Ministry of Finance
Box 30049
Lilongwe 3, Malawi
Tel: (265) 788-150/156/261/531
Fax: (265) 781-679

Principal Secretary
Ministry of Commerce and Industry
P.O. Box 30366

Lilongwe 3, Malawi
Tel: (265) 780-244
Fax: (265) 780-680

The Commissioner General
Malawi Revenue Authority
Private Bag 247
Blantyre, Malawi
Tel: (265) 622 588
Fax: (265) 620 202

Governor
Reserve Bank of Malawi
Box 30063
Lilongwe 3, Malawi
Tel: (265) 770-600
Fax: (265) 772-752

Country Trade and Industry Associations

Executive Director
Malawi Confederation of Chambers of Commerce and Industry
Box 258
Blantyre, Malawi
Tel: (265) 671-988
Fax: (265) 671-147

General Manager
Malawi Export Promotion Council
Box 1299
Blantyre, Malawi
Tel: (265) 620-499
Fax: (265) 635-429
(265) 635-433

General Manager
Malawi Investment Promotion Agency
Private Bag 302
Lilongwe 3, Malawi
Tel: (265) 770-800
Fax: (265) 771-781

Country Commercial and Financial Institutions

Commercial Bank of Malawi
Box 1111
Blantyre, Malawi
Tel: (265) 621-947
Fax: (265) 624-627

National Bank of Malawi
Box 945
Blantyre, Malawi
Tel: (265) 620-622
Fax: (265) 620-606

U.S. Embassy Lilongwe

Economic/Commercial Section
U.S. Embassy Lilongwe
Box 30016
Lilongwe 3, Malawi
Tel: (265) 773-166/342/367
Fax: (265) 770-471

Washington-Based USG Country Contacts

Malawi Desk Officer
U.S. Department of Commerce
International Trade Administration
Room 3317
Washington, D.C. 20230
Tel: (202) 377-5148

Malawi Desk Officer (AF/S)
U.S. Department of State, Rm.4238
Washington, D.C. 20230
Tel: (202) 647-8432

Office of the Coordinator for Business Affairs
U.S. Department of State
Washington, D.C. 20230
Tel: (202) 746-1625
Fax: (202) 647-3953

U.S. Department of Agriculture
Foreign Agricultural Service
Trade Assistance and Promotion Office
Washington, D.C.
Tel: (202) 720-7420

TPCC Trade Information Center
1-800-USA-Trade

Overseas Private Investment Corporation
Washington, D.C.
Tel: (202) 720-7420

Export-Import Bank of the United States
811 Vermont Ave., NW
Washington, DC 20571
Tel: (202) 565-3933
Fax: (202) 565-3931

Multilateral Development Bank Offices In Country

The Resident Representative
World Bank
P.O. Box 30557
Lilongwe 3, Malawi
Tel: (265) 780 611/784 410
Fax: (265) 781 158

The Resident Representative
International Monetary Fund (IMF)
Private Bag B354
Lilongwe 3, Malawi
Tel: (265) 780-725
Fax: (265) 780-702

XII. Market Research

Embassy Lilongwe is not an FCS or FAS post.
Post is unaware of available or upcoming DOC/ISAS, IMIS, or USDA/FAS reports other than
USDA's tobacco crop analysis.

XIII. Trade Event Schedule

2000 Trade Events

Malawi International Trade Fair
May 26 - June 4
International Trade Fair Grounds
Blantyre, Malawi

Probable 2001 Trade Events

Malawi International Trade Fair
May/June/July
International Trade Fair Grounds
Blantyre, Malawi